

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DEWITT WATER DISTRICT)
FOR AN ADJUSTMENT OF RATES PURSUANT TO)
THE ALTERNATE PROCEDURE FOR SMALL UTILITIES) CASE NO. 8798

O R D E R

On March 31, 1983, Dewitt Water District ("Dewitt") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of approximately \$6,481 annually, an increase of 55 percent. Based on the determination herein the revenue of Dewitt will increase by \$3,000 annually, an increase of 25 percent.

A hearing was not requested in this matter, and in accordance with the provisions of the ARF no hearing was conducted. The decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission offices.

COMMENTARY

Dewitt is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 83 customers in Knox County.

TEST PERIOD

Dewitt has proposed and the Commission has accepted the 12-month period ending December 31, 1982, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to apply for rate increases with the Commission. The financial data from the 1982 annual report has been used as the basis for determining revenue requirements. Dewitt proposed adjustments to revenues and expenses as reflected in the comparative income statement filed in Part II of the application. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications to reflect actual and anticipated operating conditions:

Forfeited Discounts

Dewitt reported miscellaneous non-operating income during the test period of \$227. In response to a request for additional information this revenue was identified by Dewitt as collections of late payment penalties. In accordance with the Uniform System of Accounts this revenue should be reported in operating income Account 470, Forfeited Discounts. Therefore, an adjustment has been made to transfer this revenue from non-operating income to operating revenue.

Purchased Water

Dewitt's 1982 annual report reflects that line loss for the test period was 32 percent. The Commission has an established policy for rate-making purposes of disallowing the cost associated with line loss in excess of 15 percent, which has been stated in numerous decisions of this Commission. The main explanation given by Dewitt for the excess line loss is breaks in lines which it says are repaired as soon as possible after they are discovered. The line loss for calendar years 1980 and 1981 was maintained at 12 and 15 percent, respectively. The level of line loss for these 2 years indicates that the loss for 1982 was extraordinary and the 32 percent line loss should not reasonably be expected to recur. Therefore, the Commission has determined that an adjustment of \$1,665¹ should be made to exclude the cost associated with the line loss in excess of 15 percent.

Regulatory Commission Expenses

Dewitt's 1982 annual report reflects that \$100 was charged to Regulatory Commission Expenses, Account 928, during the test period. This amount represents the minimum annual Commission assessment of \$50 for 2 years. Therefore, an adjustment has been made to reduce this expense by \$50 to recognize the annual Commission assessment which will be due based on gross revenues allowed herein.

¹ (gallons sold) $\frac{5,866,400}{.85} = 6,901,647$ (allowable gallons)
 $6,901,647 \times \$1.00/1,000 \text{ gallons} = \$6,902 - \$8,567 = \$1,665.$
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In addition, the Commission has determined that the annual Commission assessment should properly be included in Taxes Other Than Income Taxes, Account 408, in accordance with the Uniform System of Accounts for Water Utilities as adopted by this Commission. Subsequent annual reports should reflect the correct classification of this item of expense.

Rate Case Expense

Dewitt proposed an adjustment to include an additional \$500 in operating expenses to represent a 3-year amortization of anticipated expenses to be incurred in connection with this case. A breakdown of rate case expense was requested in the Commission's Order issued on April 22, 1983. Two responses have been received. One response came from the counsel for Dewitt, which stated that his fee was estimated at \$200. The second response came directly from Dewitt and stated that expenses had been estimated at \$1,500 but now it is expected that expenses will exceed \$2,000. A breakdown was not furnished in either response nor was an explanation presented concerning the basis for the expected amounts.

The ARF procedure was established to provide a simplified and less expensive method for small utilities to present cases before the Commission. The ARF application was designed so that the utility should encounter little or no difficulty in presenting its case for an increase in rates. In addition, the type of information requested by the Commission in its Order of April 22, 1983, should have been readily available in the offices of Dewitt and obtainable with only limited assistance.

It is the opinion of the Commission that a minimal amount of rate case expense should be incurred by a utility under the ARF procedure. Nevertheless, rate case expense has been allowed in previous ARF proceedings when a reasonable basis has been presented by the utility. In this case, Dewitt has refused to provide adequate documentation in support of its estimated rate case expenses. The Commission can take administrative notice that \$200 for attorney's fees is quite reasonable, especially if the work of the attorney includes analysis or accumulation of data, although the filing of an ARF does not generally require legal expertise. However, a review of the record in this case indicates that the work product of the attorney consisted primarily of objections to Commission policies and procedures set out in numerous decisions with which the attorney, as an experienced utility practitioner, should be familiar. All substantive responses were prepared directly by the applicant. Counsel is entitled to his objections to the Commission's policies and procedures; however, the applicant and its ratepayers are not benefited by his using this proceeding to vent his disagreement with the Commission. Therefore, in light of Dewitt's failure to document any rate case expense and a review of the record, the Commission has determined that no rate case expense should be allowed in this case.

Rate Design

Dewitt proposed to change its rate structure by adjusting the usage levels in the various rate blocks to reflect the actual usage levels of its customers more accurately. The Commission is of the

opinion that the proposed usage levels are reasonable, will enable Dewitt to achieve a fairer allocation of usage and billing, thus benefiting both the utility and its customers, and should, therefore, be approved.

Depreciation

The depreciation expense for the test period was based on the total utility plant in service of \$78,817. It is the policy of the Commission set out in numerous decisions to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The Commission has determined that contributions in aid of construction represent approximately 63 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by \$1,404 for the test period to exclude depreciation on assets purchased with contributions in aid of construction.²

Interest Expense

Interest expense has been reduced by \$20 to reflect the annual interest expense on long-term debt outstanding at the end of the test period.

After consideration of the aforementioned adjustments, the Commission finds Dewitt's adjusted test period operations are as follows:

$$\begin{array}{l} \text{Contributions in Aid of Construction (year end)} \quad \$50,121 \\ \text{Plant in Service (year end)} \quad \underline{\$80,744} \end{array} = 62\%$$

$$\$2,265 \text{ (Depreciation Expense)} \times .62 = \$1,404.$$

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$12,592	\$ <656>	\$11,936
Operating Expenses	<u>16,229</u>	<u><3,119></u>	<u>13,110</u>
Operating Income	\$<3,637>	\$2,463	\$<1,174>
Other Income	298	<227>	71
Interest Expense Debt	<u>1,260</u>	<u><20></u>	<u>1,240</u>
Net Income	<u>\$<4,599></u>	<u>\$2,256</u>	<u>\$<2,343></u>

REVENUE REQUIREMENTS

Dewitt's debt service based on the average principal and interest payments due within the next 5 years is \$1,920. Its bond ordinances require a 1.2X debt service coverage ratio. The adjusted test period operating statement reflects a net operating loss of \$1,174 which provides inadequate coverage on Dewitt's debt service obligations. The Commission is of the opinion that the adjusted operating income is inadequate and will adversely affect the financial condition of Dewitt. To improve Dewitt's financial condition, additional revenues of \$3,023 will be required. Based on adjusted test period results, total revenues of \$14,959 will produce net operating income of \$1,872 which, after considering other income of \$71, will be sufficient to allow Dewitt to pay its operating expenses and meet its annual debt service obligations.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are fair, just and reasonable rates for Dewitt in that they will produce annual operating revenues of

approximately \$14,959 and should be approved. These revenues will be sufficient to meet Dewitt's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

2. The rates proposed by Dewitt would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Dewitt on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Dewitt be and they hereby are denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Dewitt shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 15th day of July, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8798 DATED JULY 15, 1983

The following rates are prescribed for the customers in the area served by Dewitt Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES: Monthly

First	1,000 gallons	\$ 5.50 Minimum Bill
Next	9,000 gallons	2.00 per 1,000 gallons
Next	20,000 gallons	1.60 per 1,000 gallons
Over	30,000 gallons	1.25 per 1,000 gallons